

A Work Project presented as part of the requirements for the Award of a Master Degree in International Management from the NOVA – School of Business and Economics.



**The Future of Online Grocery Shopping -
An Explorative Approach to Discover Current German Market Dynamics**

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Abstract

This Work Project focuses on the online grocery industry with its global market characteristics and the present situation in Germany by analysing data from direct literature research and expert interviews. The Work Project examines consumers' perceptions of online and offline grocery retail and includes industry insights about main challenges of online food retailing in Germany. As a result, three major industry key success factors are identified, which tip the scale about the future success of online food retailing in Germany. These factors are investment in highly-automated logistics, the gain of consumers trust and the differentiation through a versatile service offering.

Keywords: Online Grocery Shopping, Future of Online Food Retail, Key Success Factors, Germany.

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1. Introduction

“It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change” – Charles Darwin.

Over the last decade, the internet has changed lives all around the globe more than anything else. Not only has it become an essential part of the communication of today`s society, but also it has evolved to become a major distribution channel. Retailers offer and sell their products and services online and for most people acquiring products or services through the world wide web has now become a matter of course. Only a few products and services are still excluded from the possibility of online purchase. Thereby, individual good segments have a different suitability for online trading as specific factors such as delivery conditions, service offerings and quality assurance have to be in place. Jeff Bezos revolutionised the online trade in 1994 by launching the online bookstore Amazon.com (McDonald, et al. 2014). Ever since it became common to buy books online, many different categories followed, such as the clothing, furniture or electronics industry. However, when looking at the grocery retail industry and its online movements, a different picture emerges. Countries are at different stages of development and in most cases online grocery retailing is still in the early stages. This Work Project will try to answer the research question how the German food market is currently positioned and which main drivers for future success of online grocery shopping in Germany need to be present.

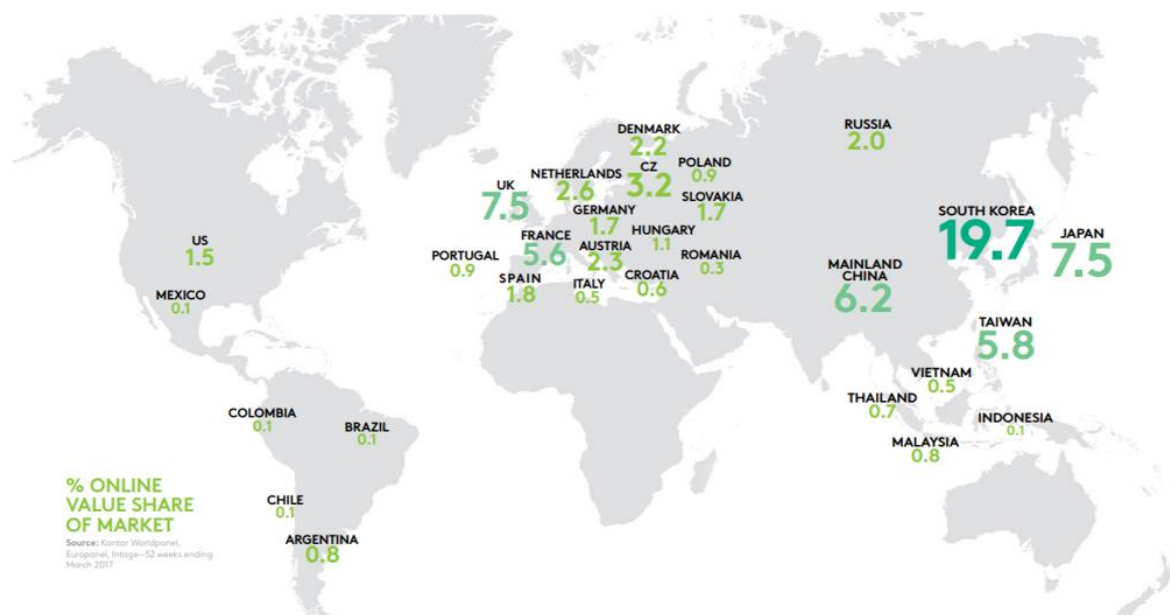
2. Global Market Characteristics of Online Food Retailing

This Work Project sets its focus on the food retail industry, hereinafter also referred to as the grocery retail industry. Food retailing or grocery retailing is defined as a common term for retailers that carry for the most part food products in their range of goods. Besides these, food retailers also stock non-food items in their assortment, but the food products make up the majority (Bogner and Brunner 2006). Oftentimes, there is no clear distinction made in literature

and data between grocery and fast-moving consumer goods (FMCG), which is why in the following it will be referred to FMCG instead of grocery when necessary. The former describes necessities, which sell off very quickly and cover a variety of different products, such as food, detergents, over-the-counter drugs, and personal care goods (Ausschuss für Definitionen zu Handel und Distribution 2006).

This chapter gives an overview of the market characteristics around the world. FMCG electronic-commerce (e-commerce) has increased in many markets around the globe as it offers growth opportunities for every kind of company, from traditional brick-and-mortar players to pure online stores. However, the sector is only in its beginnings as it currently constitutes less than 7% of the global US\$4 trillion FMCG market value (Singh 2017). Nevertheless, shares of value in the e-commerce channel of FMCG are growing to 4.6% globally. Kantar's latest Worldpanel shows a growth of online sales of 30% in the 12 months to March 2017, which doubles the amount of 2015 and is much higher than the just 1.3% growth in all FMCG channels (Roger and Batty 2017). Although accelerating, geographic differences exist as shown in the following figure:

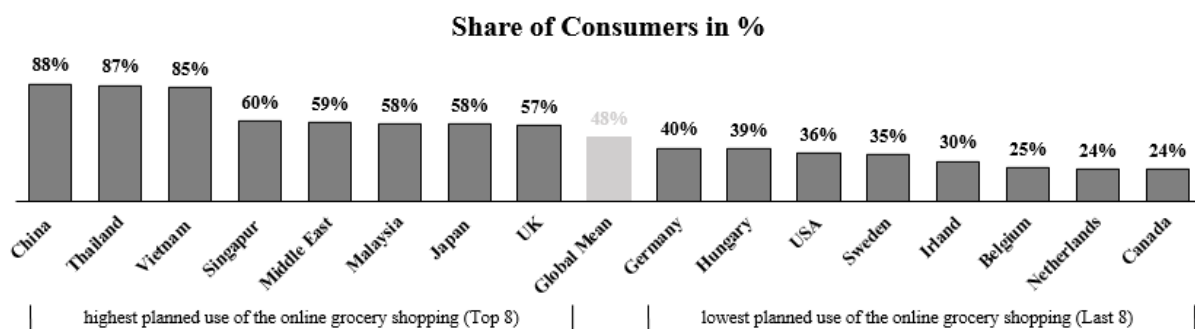
Figure 1: % Value Share of E-Commerce in FMCG Market Worldwide in 2017



Source: Kantar Worldpanel – 52 Weeks ending March 2017, derived from (Roger and Batty 2017), pp. 4-5)

With nearly one-fifth of all FMCG sold via online channels, South Korea is clearly the global leader. On a European level, the continent remains divided. Despite their vicinities and economic resemblance, online growth varies hugely across markets. Whereas the United Kingdom (UK) and France are leading – with 7.5% and 5.6% respectively – Germany (1.7%) and the Netherlands (2.6%) fall short of expectations (Roger and Batty 2017). A reason for the slow rise of e-commerce in FMCG can be seen in the logistical obstacles connected to the transportation of fresh and perishable products to the customers. Moreover, specific market infrastructures and customer purchase behaviour make it hard for online channels to rise. A study of PwC (2017) estimates the percentage of consumers to buy groceries online within the next 12 months to fluctuate across markets.

Figure II: Proportion of Consumers planning to shop Groceries online over the next 12 Months



Source: Own Presentation (derived from (Bovensiepen and Rumpff, Online-Lebensmittelhandel vor dem Durchbruch in Deutschland 2018), p. 8)

In line with previous findings, the Asian market is most suitable for e-commerce in food retail. With an exception of the UK (57%), all European countries lie below the global average of 48% share of consumers engaged in online grocery shopping. A.T. Kearney (2012) found out that the United Kingdom can be considered as the most developed online food retailing market in Europe. The main driver of the UK's leading position is the world's largest pure online grocery retailer Ocado (Clarke 2017). In 2010, €5.5 billion were spent in online food retailing, which accounted for 4.5% of total food sales in the UK. In comparison, Germany only reached €200 million, which represented 0.2% of food spending (Warschun and Rühle 2012).

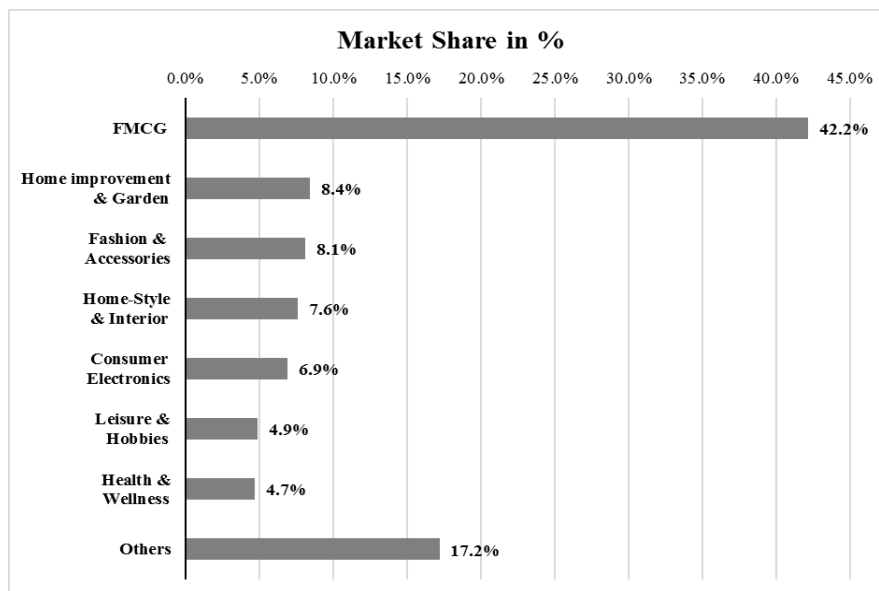
As significant differences on a global as well as on a European level were discovered that are hardly comparable, this Work Project narrows down the future of online grocery retailing to one specific market. Based on data generation possibilities and highest market sensing opportunities the German market will be characterised and evaluated.

3. Market Characteristics of Food Retail in Germany

3.1. Offline Food Retail in Germany

Food retail plays an important role for employment and the overall economy in Germany. Every day, 82 million of Germany's inhabitants are supplied with fresh groceries and beverages by over 37,000 different food retailers. Thereby, sales continuously increased during the last years, resulting in a total revenue of €158.3 billion in 2017 (IFH Institut für Handelsforschung GmbH 2018). With a market share of 42.2%, FMCG has by far the strongest position in stationary retail in Germany as shown in the following figure:

Figure III: Market Share of Industries in Stationary Retail in Germany in 2017



Source: Own Presentation (derived from Handelsverband Deutschland (HDE), Handel Digital (2018), p. 12)

All other branches lag far behind the market share of food retail. Due to the great product diversity, FMCG is different from other industries. On average, a retailer of this sector features

5,800 products in its assortment. In large stores, even a number of 15,000 food and non-food products may be possible, some of which are available in a variety of packaging options (Passenheim 2003).

The structure of food retailing in Germany has significantly changed in the past as more and more stationary retail stores established and the density of stores increased significantly. According to the Institut für Handelsforschung (2018), the total number of 37,000 German grocery stores is distributed into the following categories: Around 800 hypermarkets that cover a sales area of at least 5,000 m², offer a full product range of groceries and carry an extensive non-food assortment. More than 1,000 large supermarkets that have a size between 2,500 to 5,000 m², a full assortment of groceries and some parts used for non-food products. Over 10,000 supermarkets that have a sales area of 400 to 2,500 m², a complete assortment of groceries and only minor sales area share is used for non-food. The last subclass are discounters that are present with over 16,000 stores across Germany and hereby, make up the majority of German retailers. Usually discounters are characterised by a sales area of below 1,000 m², provide solely self-service, follow a very price-aggressive strategy by concentrating on high-volume food items and offer non-food products only as special offers. In addition to this composition of retailers, another 6,000 small and medium-sized food manufactures can be added, which consist of specialised stores such as bakeries, drug stores, organic stores or butchers (IFH Institut für Handelsforschung GmbH 2018). Based on this broad spectrum of markets, Germany provides a nationwide and diverse sales network in food retailing. Broken down to the number of inhabitants, one can say that for every 2,850 persons there is one supermarket, discounter or drugstore. This equals 350 stores per one million residents. Thus, there's a higher level of convenience for German consumers than for the ones in the UK or France, where only 120 to 180 shops per one million inhabitants exist (Mucke 2018).

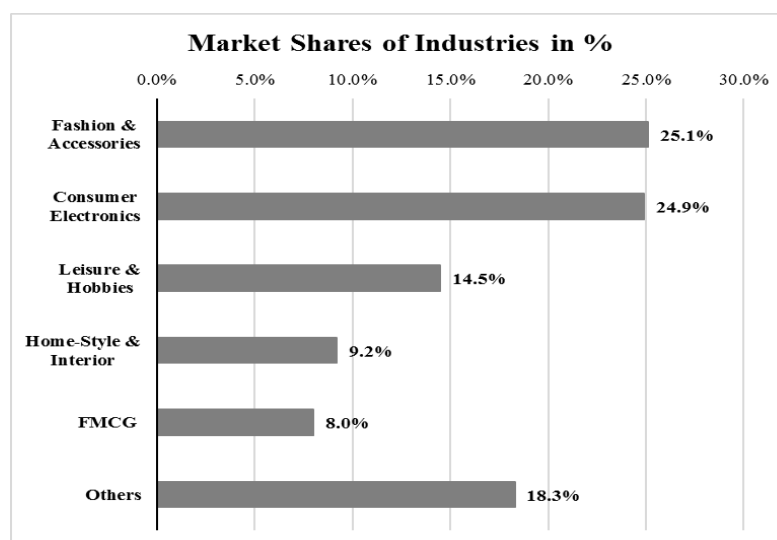
Another peculiarity of the German market in comparison to other European counterparts, is its intensive and very price-driven competition due the high market saturation, as the top 5 retailer account for 75% of the market share (see appendix I). Due to this intense competition, retailers in Germany have been focussing on cutting prices in the last years instead of developing differentiation characteristics or service offerings, as the UK or Suisse did (Warschun and Rühle 2012). In order to gain a full overview of the German food market, it is important to also analyse the online retail market. An in-depth look on the German online retail market will be presented next.

3.2. *Online Food Retail in Germany*

Buying products or services via the internet is already part of everyday life for many Germans today. However, regarding the purchase of everyday necessities such as food or beverages, the picture looks different. Although many retailers in Germany are trying to offer these products online, the market is still relatively small (Warschun and Rühle 2012).

The total volume for e-commerce in Germany accounted for €48.9 billion in 2017. This sales volume can be subdivided into different industries shown in the following graph.

Figure IV: Market Share of Industries in E-Commerce in Germany in 2017



Source: Own Presentation (derived from Handelsverband Deutschland (HDE), Handel Digital (2018), p. 9)

The graphic shows that Fashion & Accessories (25.1%) followed by Consumer Electronics (24.9%) are making up half of the entire online market share. Compared to the offline market, in which FMCG (42.2%) clearly stands out, the online channel is more diverse. FMCG only appears on fifth place with a market share of 8.0%. In absolute terms this reflects €3.9 billion and implies food as well as non-food products that are sold via online grocery retail. Although FMCG has the highest online growth potential among the industries with an increase of 15.9%, it still only reflects a rise of €0.5 billion compared to 2017. In contrast, offline FMCG trade increased by €5 billion the same year (Handelsverband Deutschland 2018). A direct comparison of the offline and online FMCG trade then again shows that online sales only constitutes a small fraction. To be specific, the e-commerce sales share of FMCG is at 2% which shows that the majority of FMCG is mainly bought stationary (IFH Institut für Handelsforschung GmbH 2018).

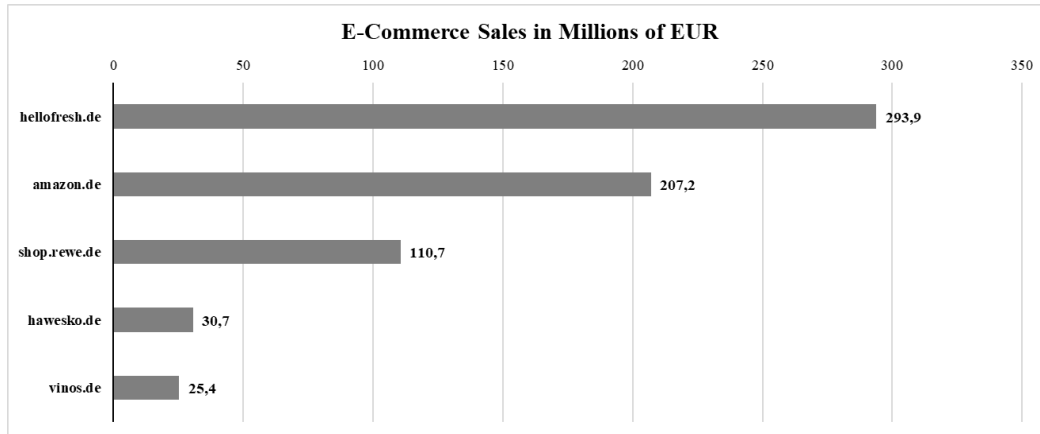
However, retailers seem to see future potential in the online sector as more opportunities become available to buy FMCG online. Retailers are not only pure-players, such as Amazon or Picnic, but also stationary traders and providers of FMCG. They combine their distribution channels with those of online retail, whereby the so-called Multi-Channel-Strategy is employed (Handelsverband Deutschland 2018). Out of the top 100 German providers of food retail, 30% already make use of their own online-shop and 61% also sell their products through Amazon (IFH Institut für Handelsforschung GmbH 2018). The following section will point out which current key players in online grocery in Germany exist and which sales mechanisms are employed by them.

3.3. Key Players in Germany

German suppliers make use of various methods to sell groceries online. They range from providing single products to prepared meals and the delivery throughout the whole country or

only regional catchment areas (Neumann 2017). Leading companies in online grocery retailing in Germany are pointed out in the subsequent graph.

Figure V: E-Commerce Sales of Leading Online Shops in Food and Beverage Segment in Millions of EUR



Source: Own Presentation (derived from ecommerceDB.com, (Largest online shops in the food and beverage segment in Germany 2017 2018))

As this Work Project focuses on pure online grocery retail, HelloFresh will not be in the scope of content, as it delivers ready-portioned meals to consumers (HelloFresh 2018). To get an insight in the business structure of the most successful online grocery retailers, online shops of Amazon and REWE will be depicted. In addition, important niche players will be introduced to get a full overview of the German market.

3.3.1. Amazon Fresh

Online giant Amazon offers its customers food exclusively through its delivery service Amazon Fresh. So far, consumers in Berlin, Potsdam, Munich and Hamburg can order food and non-food items online and have them delivered to their home via the logistics service provider DHL. The current assortment includes 300,000 products, out of which two thirds are non-food products (Holst 2017). Among the food products Amazon Fresh offers a high variability of fruits, vegetables, meat and other kinds of fresh groceries. To use Amazon Fresh's services, one subscribes to a fee-based Amazon Prime account and must live in the previously mentioned cities. The cost for Amazon Prime amounts to €69 per year or €7.99 per month. Moreover, Prime customers must pay an additional fee of €9.99 per month to use the delivery service. One

must reach an order value of €40 to be free of extra delivery fees. The delivery itself can be made from Mondays to Saturdays between 5am and 10pm within a two-hour delivery window (Amazon 2018). Although this service is still limited in terms of delivery areas and customers, the company is planning to remove the current limited availability by additional expansion of Amazon Fresh in Germany (Holst 2017). However, due to the acquisition of Whole Foods in the US in 2017, it remains to be seen if the expansion plans of Amazon Fresh will prove true or if a more offline-focused strategy will be followed (Wingfield and de la Merced 2017).

3.3.2. REWE

In contrast to Amazon Fresh, the online shop of the traditional food trading group REWE has three different business models. The first one is a delivery service at a fixed delivery time, which is available in the cities of Berlin, Hamburg and Munich since 2011. The assortment contains over 9,000 products, including a great number of fresh groceries, which can be ordered via the online shop or the REWE application. Consumers hereby benefit from weekly changing offers and the collection of loyalty points via Payback. To place an order, a minimum value of €50 needs to be reached and an additional fee of €2.90 – €4.90, depending on the delivery volume and dispatch time, is charged. Payments can be made via credit card or PayPal and after the third order also direct debiting is possible (REWE Corporate Website 2018).

The second business model is a parcel service, in which REWE cooperates with third-party suppliers to send selected products to customers. Consumers can choose out of over 10,000 products, which are mostly non-perishable food items and non-food products. Consumers do not need to reach a minimum order value and can make use of a free return of delivered products. After placing the order via the REWE online shop, the third-party takes care of the delivery itself and could therefore charge extra fees. Payment can be made analogous to the delivery service (REWE Corporate Website 2018).

The third business model is based on the e-commerce type Click & Collect, where consumers can order products online through the web shop or the application and pick up the purchase in a store. Only 5% of the REWE stores, all spread over the country, offer this service. After the customer has successfully placed its order, the goods can be received at a pick-up counter. If the customer decides to arrive by car, there are reserved parking spaces during the chosen pick-up time (REWE Corporate Website 2018).

Its recent investment of €80 million in a semi-automated fulfilment centre shows the potential REWE sees in e-commerce. Having the size of two and a half football pitches (17,000m²), space for 200 delivery vehicles and 38 gates for outgoing goods, makes it the largest and most advanced fulfilment centre in Germany (see appendix II). With the help of a so-called shuttle-technology, over 20,000 products can be picked by robots (“shuttles”) and be directly transported to a picker. This results in a reduced overall process time of 15 minutes from order placement to getting the delivery into the vehicles (Weidemann 2018). With twice the assortment of a stationary REWE supermarket and an optimization of processes REWE follows a digital transformation strategy.

3.3.3. Important Small Players

In addition to the big players in Germany’s online retail business, small niche players are setting further impulses. One of the most prevalent ones is Picnic, a Dutch pure online supermarket, which entered the German market in April 2018 and currently operates in the region of Neuss. Its distinctive feature is the exclusive ordering via application, a minimum basket value of €25 and a free delivery. Customers can choose among 10,000 products, which are promoted to be cheaper or identical to stationary supermarkets items (Kitzmann 2018). Following the principle of the former milkman, Picnic predefines fixed one-hour time slots for each day per customer, during which they deliver the order. Consumers can choose the time window which fits them

best and will get a push-notification the same day with a condensed delivery period of 30 minutes (Picnic GmbH 2018).

Another start-up that reached high profile is Flaschenpost, a pure online beverage supplier from Münster, Germany. Each day, Flaschenpost delivers over 15,000 beverages to customers in the area of Münster, Cologne, Mannheim and Düsseldorf. Based on a recent €20 million venture capital, the company is planning to expand their delivery area to further cities soon. In 2018, they acquired a warehouse with several thousand square meters near Düsseldorf, out of which 60 vehicles will operate in the future (Rinke 2018). The start-up is advertising their offering by a 120 minutes same-day delivery (Monday – Saturday; 9am-9pm) with no additional delivery fees. Moreover, cheapest prices are guaranteed and the minimum basket size equals to €20 (flaschenpost AG 2018). However, the total impact of online grocery retail start-ups in German is still limited and they only set regional impulses.

Based on previous chapters, the food business in Germany, both offline and online, has been presented. Nevertheless, the question about future characteristics of food retail in Germany remain. In order to clarify this problem, it is inevitable to understand which changes need to occur to make online grocery shopping relevant for German consumers and what it is that German customers want.

4. Methodology

4.1. *Hypotheses development*

In order to develop key drivers of future success of online grocery shopping in Germany, it is important to understand the industry as well as the consumers' perspective. Therefore, the consumers' motives to shop or not to shop groceries online and the industry chances and risks were analysed. Based on literature review the following hypotheses were developed:

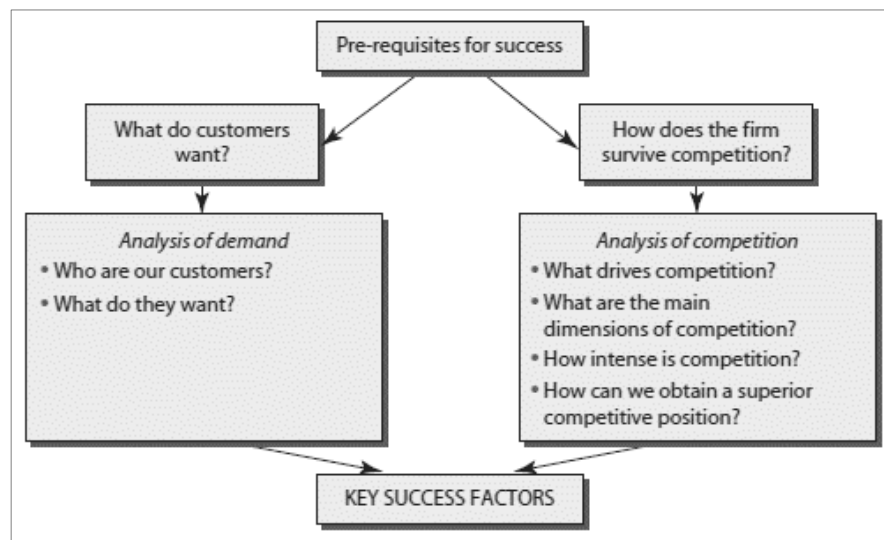
H1: The German retail landscape makes it difficult for e-retailers to sell groceries online in Germany.

H2: The main competitive advantages for German e-retailers lie in the choice of assortment and the degree of automation.

H3: The main motive for most German consumers to shop for groceries online is the need for more convenience.

To test these hypotheses, industry key success factors were identified to take the consumers' and the industry's side into consideration. A basic framework for determining key success factors is presented in the following graphic:

Graphic I: Framework for the Identification of Key Success Factors



Source: *Contemporary Strategy Analysis: Text and Cases, 9th Edition. John Wiley & Sons Ltd, 2015, p. 84* (Grant 2015)

In line with the framework, two main questions were tried to be answered: What do customers want and how do firms survive competition?

4.2. Methods and Data Collection

To collect data, two different approaches were integrated in this Work Project. On the one hand, primary data from expert surveys were evaluated. On the other hand, secondary data from relevant literature and market research institutes was analysed. Both helped to gain full understanding of German consumer behaviour regarding online grocery shopping. Moreover, it was possible to come up with an industry's perspective on the status quo of online food retailing in Germany with its potential future. Applying a qualitative approach, expert interviews with 19 respondents were conducted by using a standardised written questionnaire,

which can be found in appendix III. The respondents, which were chosen based on their professional background and knowledge about the German online market (for a more detailed list of participants, see appendix IV), were asked open-ended questions about their evaluations regarding online grocery shopping in Germany. These interviews were either conducted in person or via telephone, lasting between 20-30 minutes.

5. Presentation of Results

In the survey all respondents stated that online grocery shopping in Germany is still in its beginning and constitutes a niche sector. However, most interviewees did not just consider it as a current trend but stressed in the establishment of an online channel in the food retail industry. However, the extent and potential structure varied among answers. The most positive projection stated by the interviewed experts regarding the status of the German online grocery retail market in 4 years was a market share of 5%.

5.1. *What do German Customers want?*

The expert interviews revealed that it is still very uncertain who will be prospective German consumers of online grocery shopping. Some expect only generation Y (everyone born between 1980s and early 2000s) or digital natives to shop online, while others are of the opinion that only full-time professionals or families with young children will use this service. Christopher Huesmann, Chief Marketing Officer of Flaschenpost, clarified that *“in fact everyone is using our services as soon as they no longer live at home [...] no matter which age, even above 60 and 70, the customer share is still relatively high”*. As no clear target group could be identified, the entire German population will be considered in this Work Project.

Based on the responses given, three specific characteristics represent the German customer. First, most (18 out of 19) of the respondents said that the German customer values quality, especially with regard to fresh products. Thomas Nase, Key Account Director for REWE at Nestlé Germany underlined that *“Germans have an incisive quality consciousness – when*

shopping for fresh products such as fruits and vegetables, the customer wants to hold the items in his hands and feel if there are any dents or if the products have the expected quality”. This physical evidence is hard to transmit to online grocery shopping. In fact, a survey conducted by AT Kearney named number one reason for Germans not to shop online as the impossibility to neither see nor feel the products (70%), closely followed by consumer uncertainty about product quality (62%) (Warschun and Rühle 2012).

Second, 14 respondents indicated that the German consumer is price sensitive and is always striving for the best deal possible. Eve-Marie Tissot, Key Account Manager at Nestlé said that *“German consumers are rational and very professional. They are smart spenders, seeking for the best price and best deal. Around 98% of the German population has at least once bought at Lidl”.* The leading position of discounters in Germany that always strive to offer the lowest price possible, connected to the fact that the grocery industry is a low margin category makes it hard for online grocers to offer same or even lower prices online. In addition, consumers see no need to shop groceries online, but are rather satisfied with the stationary offer (Delfmann, Werner et al. 2011). This also distinguishes grocery e-retailing from other industries. Marie-Sophie Dumont, Online Account Manager for Eucerin, gave an example about the pharmacy industry: *“our online segment is mainly price-driven, and the consumer shops online as products are up to 50% cheaper in comparison to offline pharmacies.”*

As a third point, 12 respondents mentioned that, overall, the German customer is more conservative than its European neighbours and needs time to build up trust and confidence in new technologies. Johannes Frederik Schuster, Manager Marketing Strategy at REWE points out that *„the German consumer is not yet that technology-savvy. Our trust in online services itself is not high and goes from the integration of the use of the iPhone into our everyday life to how many transactions are made with the phone. There are still many people that want to withdraw their money from the bank and pay in cash.”* Indeed, a study conducted by the

European Central Bank (2017) revealed that Germans still conduct over 80% of point of sale transactions in cash (Esselink and Hernández 2017).

Looking at the motives to shop for groceries online, convenience, assortment and price aspects are main drivers (Wagner and Wiehenbrauk 2014). Literature reviews showed that the delivery to a home, in connection with the time-saving aspects and reduced physical stress, are prime reasons to buy groceries online and will all be conflated under “convenience” (Warschun and Rühle 2012) (Seitz, et al. 2017). The wide range of offers on the internet is an experience for online shoppers. Consumers particularly buy specialties online that they do not find otherwise. Moreover, they especially like to shop wine, sweets and spirits online (Wagner and Wiehenbrauk 2014). However, assortment is larger in stationary trade, where German customers increasingly prefer one-stop-shopping. While in 2018, 85% of consumers want to do shopping across categories all at once, this share was only 76% in 2015 (IFH Institut für Handelsforschung GmbH 2018). The expert survey exposes that more than half of the respondents (11 out of 19) believe that future online grocery shopping will be across categories excluding perishable products. Ruben Dahmen, founder of the digital consultancy WAYS summarised that *“retailers will try to offer everything online, but fresh and perishable products will be the crucial and braking factor”*.

Consequently, the challenge for e-retailers will be to combine low prices with convenience. Lisa Kostenko, Digital Brand Manager at Picnic highlighted that *„discounters are able to offer the lowest price, while large stores, such as REWE or Edeka can convey convenience. Therefore, pure online players have the challenge to combine both into the same service offering”*.

5.2. How does the Firm survive Competition?

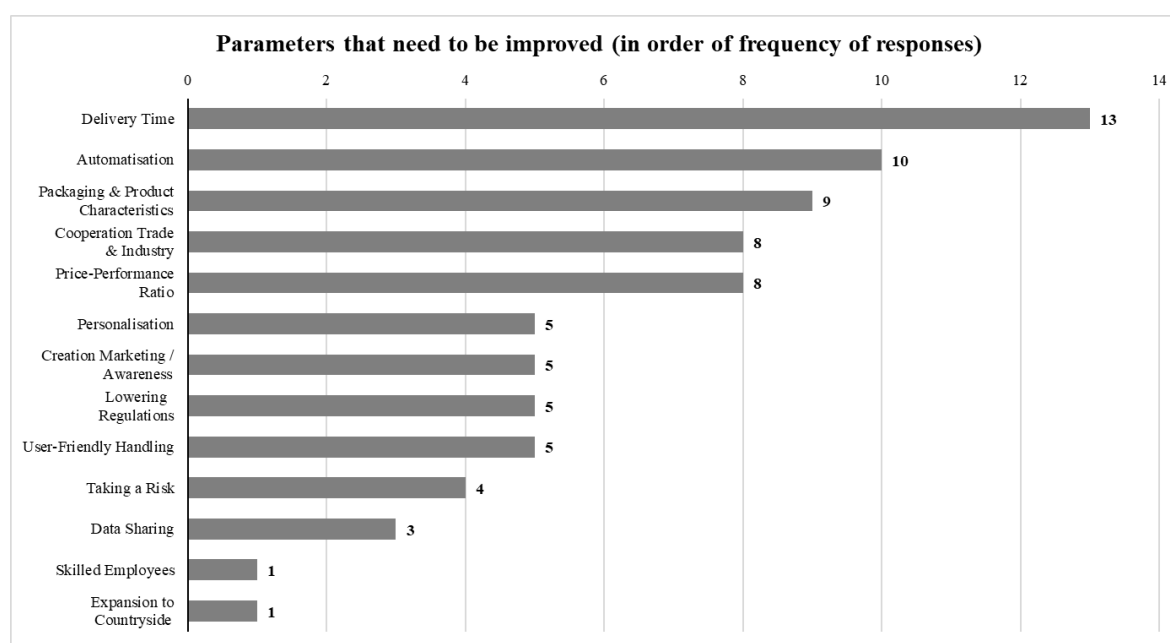
Next, key challenges of today’s German e-grocers are evaluated to identify ways for firms to survive competition. Interview participants named risks of online grocery shopping and

proposed changes from the industry's side to make e-business successful (see appendix V for a word cloud with reasons that hamper firms to establish a German online grocery business).

Above all, the large investments costs were named by 12 interviewees as number one reason, followed by the need to adapt established processes or to build up new ones, which was mentioned by 9 participants. One example would be the compilation of shopping baskets using robots instead of human workforce to decrease processing time. Alexander Pagel, consultant at Simon Kucher & Partner, pointed out that *“every player that wants to sell groceries online faces high investment costs for logistics and processes, which will only bring a return in a long-term perspective”*. Whereas established players with monetary resources face difficulties in ripping open old, rigid processes to build up an own online business, new and small players often lack financial funds to make an impact. One interviewee indicated that *„above all, firms are taking a risk as up-to-date and in a timely manner most likely no positive returns will be made, so why should they get involved in the first place? [...] in four years, you might have new players, who do not care about numbers, but about other key performance indicators that convince venture capitals to invest in their firm”*.

Another key challenge for e-grocers is the shopping behaviour of German consumers, which value the social dimension of offline grocery shopping (8 out of 19). The strength of stationary supermarkets is the advisory expertise of salesmen and the connection of consumption and entertainment (Ternès, Towers and Jerusel 2015). Nowadays, supermarkets can create a world of experiences and transform the store into a place where people meet each other and get inspired by the wide variety of products. That social component is hard to convey into online shopping. Fact is, currently not a single player has a leading position in Germany and thus, all earlier presented key players need to improve their current services in order to be more efficient. Different levers named by respondents that require change are presented in the following figure:

Figure VI: Parameters that need to be improved to make online grocery shopping more successful in Germany



Source: Evaluation of Survey Results

The chart illustrates that the prime obstacle for e-grocers is the delivery time. As presented earlier, German firms either let customer choose from 2-hour slots to delivery packages or decrease flexibility of delivery by pre-defining 30 minutes slots in which the parcel is handed over, such as Picnic is doing it. However, this is not enough according to Theresa Küter, responsible for digital touchpoints at the German parcel service company Deutsche Post DHL Group. She says that *“the delivery time is crucial for the customer. Firms must achieve that packages are delivered the same day and even in 15 minutes slots. This necessitates sophisticated logistics, but also represents the prime benefit for customers that have long working days and want to have their groceries delivered the moment they arrive at home in the evening.”* To ensure this aspect of convenience, additional costs are attached to the last mile delivery, which sum up to around 10-15% more than within offline shopping (Hansen and Hielscher 2013). So far, no direct delivery services are available that do not involve extra expenses, resulting in the fact that most companies charge extra fees. Other firms try to circumvent the problem by offering alternative distribution channels such as Click & Collect. Thereby, firms avoid last mile delivery fees as consumers pick their products online and collect

them in a store nearby on their own. Constantin Sandfort, national key account manager at Nestlé, predicts that *“Click & Collect will be clearly more exciting and used more frequently, as consumers are passing by stores on their way home anyways and can save time by picking up their groceries. Moreover, they have the chance to take a last look at the items and give them back if quality standards are not fulfilled.”*

Another relevant need for action is packaging and product characteristics. Not only do groceries come along in different shapes but also with specific requirements for storage such as temperature, durability and safety. Markus Hau, supply chain director at Nestlé, indicates that *“every distribution channel has its own requirements on packaging. Discounters need shelf-ready packaging and inventive appearance, whereas online packaging do not require colours, but must be easy to open, be stable and simple to return”*. The increasing awareness of sustainable packaging from German consumers plays another role. A study of PwC revealed that 76% of German consumers find it important that alternatives to cardboard boxes or plastic bags exist. They support a future return system for reusable packaging, for instance in the form of transport boxes and would be willing to pay a deposit of €2.49 on average (Bovensiepen, Fink, et al. 2018). Looking into the future of online grocery shipping *“space-efficient packaging is expected to be a basic requirement by 2025”* according to a survey done by Tetra Pak (2018).

5.3. Key Success Factors of Germany's Online Grocery Industry

Based on the evaluation of what German customers prefer and in line with what firms needs to be aware of, three main industry key success factors for the German online grocery industry were identified and will be discussed in more detail in the following paragraphs.

5.3.1. State-of-the-art logistics can achieve cost efficiency

Online grocery retailers must acknowledge that high initial investments and early capital expenditures are needed but will pay off later in form of economic efficiency. Automated processes are pre-requisites to achieve various key factors: They can increase the availability

of goods for consumers and new product ranges may be included in the online offer. Modern processes can also be used to expand delivery areas. In addition, they will help to increase flexibility for customers and at the same time to further increases in profitability. In comparison to old, manual centres, commissioning capacity will be increased, and faster processing will also lay the foundation for same-day delivery and new services models. The sooner firms start investing, the better they can make use of first-mover advantages.

5.3.2. Product availability and quality assurance result in consumer trust

It should be an essential objective of online grocery players to gain the attention of consumers by promoting the services they offer to consumers. In terms of product range, firms should either try to offer everything online, also including specialties and fresh products, or focus on a specific product segment to differentiate themselves. Moreover, the online offer can be a distinguishing feature to counteract the competition from discounters. Hereby, firms need to prioritize the fulfilment of customer demands, especially in the start phase, as a lasting customer loyalty is one of the fundamental challenges for online food retailers.

5.3.3. Differentiation requires a versatile service provision

A unique selling proposition is of strategic importance within the online grocery business in order to convince the customer of the added value provided by the offered services. Above all, time saving aspects by delivering the purchase at an exact time to your home or picking up the pre-packed items in the store should be guaranteed. Also new, unexplored delivery methods such as drones can be expected in the future. However, firms need to keep in mind that additional fees will hinder the likelihood of adoption.

Combining all three industry key success factors, companies need to come up with individual strategies to pull away from competitors. Established key players should prioritize product availability and quality assurance, whereas new players should set focus on differentiating themselves through a unique selling proposition. However, both need state-of-the-art logistics

to achieve cost efficiency. Ultimately, all three key success factors should be put into practice to guarantee long-term success in online food retail in Germany.

6. Discussion

The aim of this Work Project was to present the current state of online grocery shopping in Germany and identify its specific market characteristics. It was shown that Germany is not as developed as one might initially think but lacks behind in online grocery shopping in international comparison. This can be traced back to the strong German offline retail infrastructure and the satisfaction of German consumers with the status-quo. The results obtained provide evidence for the proposition that the German retail landscape makes it more difficult for e-retailers to sell groceries online as store density allow consumers to shop offline conveniently. The high number of discounters with their very price-aggressive strategies as well as the fact that Germans often base their decisions on where to shop on the best price impede online grocery shopping as well. Consequently, hypothesis H1 – The German retail landscape makes it difficult for e-retailers to sell groceries online in Germany – can be approved.

Moreover, the Work Project evaluated the key drivers that influence the success of German retailers in online food retailing. Thereby, hypothesis H2 – The main competitive advantages for German e-retailers lie in the choice of assortment and the degree of automation – can only be partly approved, as one main competitive advantage has not been stated. Whereas it was correctly assumed that the choice of assortment and the degree of automatization are competitive advantages for e-retailers, consumer trust should be added as a dimension. Although the trust of consumers only grows slowly and will need time to be established on a big scale, it is a tipping point to make online grocery shopping successful. If consumers cannot be convinced of the additional services, they will stick to the traditional offline business.

Regarding hypothesis H3, – The main motive for most German consumers to shop for groceries online is the need for more convenience – the results lend support to the prediction. As the

German consumer is satisfied with the current stationary offering and values the social aspects of it, online retailers need to come up with additional services. These services need to enable time-saving aspects and reduce physical stress. Preferably they are sustainable as well to be of value for consumers. Since the German consumer is cautious when it comes to new, unknown things, firms need to educate him regarding technology to build up trust and confidence for the value-adding services of online food retailing in the long run.

6.1. Limitations

This study includes limitations that suggest avenues for further research. First, access to interview partners was limited, because important experts such as employees of Amazon Fresh or REWE digital were unable to be interviewed. However, nearly all the interviewees had considerable experience and a thorough knowledge of the studied topic. As not all the respondents work in the field of online grocery retail, personal opinions and insights across industries were able to be included. Due to time and geographic constraints, most of the interviews were done via telephone, which excluded the possibility to analyse facial expressions and gestures. As a qualitative research method with only a small-scale number of interviews was used, results cannot be seen as significant. Expert interviews reflect personal opinions and thus are not representative. Moreover, a greater focus was set on the industry's than on consumers characteristics and demographic differences were not evaluated in greater detail.

6.2. Direction for Future Research

As this Work Project focused on the German consumer in general, it would be interesting to conduct a focus group with German consumers to gain knowledge about demographic mismatches. Consequently, it could be investigated if specific target groups value different things in online grocery shopping and how to target each one properly. Furthermore, an exploratory research is generally followed by a conclusive research to gain representative

findings. Moreover, future research should focus on best practices worldwide, as Germany is lacking behind in terms of technology.

7. Conclusion

This Work Project shed light on the fact that the acceptance of German consumers to purchase groceries via internet is still very low. For the next three to five years online food retailing in Germany is expected to remain a niche segment with a market share below 5%. The German market characteristics with its diverse offline sales network in food retailing and the satisfaction of German consumers regarding the status-quo of stationary grocery retail will complicate an increase of the total online food retail. However, presence in the digital marketplace is crucial for retailers, also in the grocery industry. This Work Project identified three main drivers that e-grocers should take into consideration: state-of-the-art logistics can achieve cost efficiency; product availability and quality assurance will result in consumer trust and differentiation requires versatile service provision. As it will not be possible to implement everything at once, each company need to develop their own strategy and prioritize steps accordingly. Whereas established players should connect their existing offline offer with the online world first, small players must provide innovative services to convince consumers directly from the beginning. However, it will take time to educate consumers regarding technology about new services.

A failed adaptation to changing market situations and consumer preferences can quickly lead to failure, especially in the age of digitalization. Just providing separate aspects such as no delivery fees or big assortments taken individually deem not to be sufficient. Above all, e-grocers must guarantee consumer convenience. In order to do that initial investment costs are necessary and due to the uncertainty of the financial viability, the road ahead for online grocery retail in Germany is highly uncertain. Therefore, the question remains: who will be able to establish a viable business model in online grocery retail in Germany?

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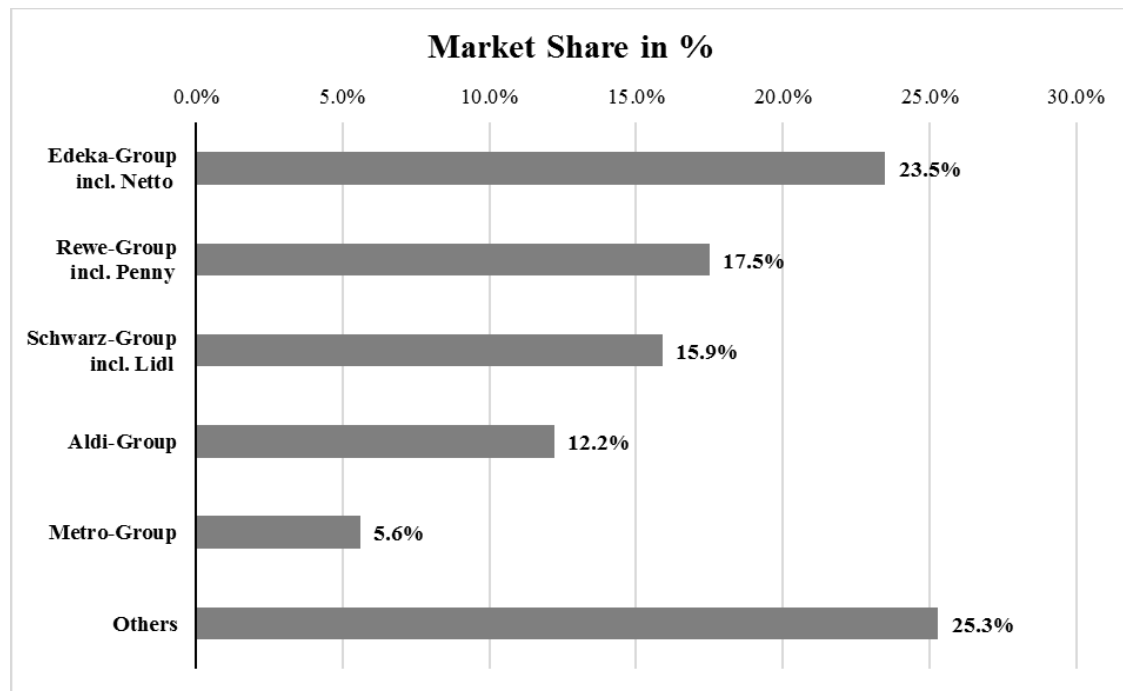
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9. Appendix

Appendix I – Market Share of Leading Retailers in Food Retailing in Germany in 2017



Source: Own Presentation (derived from (Bundesvereinigung der Deutschen Ernährungsindustrie 2018) (2018), p. 18)

Appendix II – REWE’s new High-Tech Food Fulfilment Centre “Scarlet One”



Appendix III – Standardised Interview Questionnaire

Questionnaire - The Future of Online Grocery Shopping

*for attaining the Master of Science degree in International Management
at the Nova School of Business and Economics in Lisbon.*

Interviewer and questionnaire: Cindy Engelmann

1. Dear interviewee, please introduce yourself. What is your name and current occupation?
2. What are current challenges in your job?
3. Where do you see online grocery retail in Germany currently, also compared to other European countries?
4. Where do you see current opportunities in online grocery retail for the industry and for trade?
5. Where do you see current risks in online grocery retail for the industry and for trade?
6. How does the industry and trade need to change in order to stay interesting for online grocery retail in Germany?
7. Which are current difficulties of cooperation between industry and trade?
8. In your opinion, who are today's pioneers in online grocery retail?
9. Where do you see online grocery retail in Germany 2022?
10. What is special about the German consumer and the German trade?
11. Do you believe in the establishment of an online channel in food retail?
12. If yes, will this establishment be cross-category or limited to specific product categories?
13. If yes, will this establishment be across all clients or limited to specific consumers only?

Thank you for taking the time and effort to answer these questions.

Appendix IV – Detailed List of Interviewed Industry Expert

| Nº. | Interviewee | Occupation | Company | Explanatory Note |
|-----|-----------------------------------|---|-------------------------------------|--|
| 1 | Herrman Gottwald | Former CEO Nestlé Waters, Former CEO PepsiCo | Nestlé Germany, PepsiCo Germany | Category Expert Food and Beverages |
| 2 | Constantin Sandfort | National Key Account Manager REWE also responsible for REWE Digital | Nestlé S.A., Germany | FMCG Company |
| 3 | Eve-Marie Tissot | Key Account Manager REWE and former Key Account Manager E-Commerce | Nestlé S.A., Germany | FMCG Company |
| 4 | Thomas Nase | Key Account Director REWE | Nestlé S.A., Germany | FMCG Company |
| 5 | Markus Hau | Supply Chain Director, International Customers | Nestlé S.A., Germany | FMCG Company |
| 6 | Benjamin Tillmann | Key Account Director E-Commerce | Nestlé S.A., Germany | FMCG Company |
| 7 | Marie-Sophie Dumont | Junior Online Account Manager Eucerin, Pharmacy | Beiersdorf AG, Germany | FMCG Company |
| 8 | Johannes Frederik Schuster | Manager Marketing Strategy, Interface Omnichannel & Analytics | REWE GmbH, Germany | Germany's Second Largest Supermarket Chain |
| 9 | Jens Holst | Editor for Specialist Medium Food, Trade Germany and Europe, Online Trade | Lebensmittelzeitung | Leading Trade & Business Newspaper of FMCG sector in Germany |
| 10 | Nina Lensing | Product Manager Local Commerce | Deutsche Post DHL Group, Germany | World's Leading Mail and Logistics Company |
| 11 | Theresa Küter | Product Manager Digital Touchpoints & Customer Experience | Deutsche Post DHL Group, Germany | World's Leading Mail and Logistics Company |
| 12 | Anna Gatzweiler | Attorney at law | ACT Legal Service Company GmbH | Focus Area: Corporate/Commercial, IT |
| 13 | Dr. Florian Wäfle | Attorney at law | ACT Legal Service Company GmbH | Focus Area: Corporate/Commercial, IT |
| 14 | Alexander Pagel | Consultant | Simon-Kucher & Partners, Germany | Focus Area: Consumer Goods and Retail |
| 15 | Michelle Jax | Junior Key Account Manager | Procter & Gamble, Germany | FMCG Company |
| 16 | Lisa Kostenko | Digital Brand Manager | Picnic, Germany | Pure Online Supermarket |
| 17 | Ruben Dahmen | Founder and CEO, Digital Consultant | WAYS GmbH, Germany | Expert Digital Transformation |
| 18 | Christopher Huesmann | Chief Marketing Officer | Flaschenpost AG, Germany | Pure Online Beverage Retailer |
| 19 | Interviewee 19 | - | Private Person | - |

Appendix V –Word Cloud with Reasons that hamper firms to establish a German Online

Grocery Business



Source: Evaluation of Interview Results

Infrastructure: Everything being mentioned connected to the offline and online retail market structure of Germany.

Scalability: Everything being mentioned about the difficulties in planning and scaling up the online food retail business.

Rising Offline Attractiveness: Answers about the rising offline attractiveness of German retails in terms of extended opening hours and offline shopping experiences.

Logistics & Quality Assurance: Especially in the food sector, quality assurance during the whole product lifecycle were named as requirements for acknowledged logistics. Modern technologies in the delivery and storage of products are playing a key role as well.

Conversion of Processes: Responses connected to the difficulties in changing existing logistic processes and establishing new ones. That includes the automatization of processes.

Investment Costs: Everything connected to the spending of money and resources.

Customer Trust: Responses in connection to the lack of customer trust for online food retailer. Also, it was mentioned that time would be needed to establish customer trust and that consumer loyalty is a major obstacle for online retailer was named under this aspect.

Shopper Behaviour: It was mentioned that Germans are cautious to new practices and like to stick to what they are used to. They are confident with the current status quo.

Data Concerns: Responses regarding the concerns of German consumers to share their data about their personal information or postal address.

Store Density: The dense network of offline food retailer in Germany.

Lack of Social Components: In contrast to online stores, offline supermarkets have the ability to convey a social component. Being able to interact with others, get inspired and explore the full range of a supermarket were named under this aspect.

Price Pressure: The large number of discounters in Germany and the low margin category in general are named as factors for this reason.

Appendix VI – Extracts of Interview Responses that are mentioned in the Main Text

Christopher Huesmann – Chief Marketing Officer, Flaschenpost AG, Germany

Q13: If yes, will this establishment be across all clients or limited to specific consumers only?

“I think that one can fulfil pretty much different needs by using various models. So, I do not think that the person, which is currently shopping at a discount will still drive to a discounter in 20 years and do not shop online. I believe that specific business models will develop, which will also cover the discounter online. The question, if someone will end up buying online, is less a question whether this person is a discounter customer, a REWE customer or an organic supermarket customer, but rather dependent on the online affinity in general. Someone that is not buying on Amazon right now, because PayPal is too difficult for him or he does not have any credit card, will not buy groceries online in the future. These people also exist in my age, so for the age around 30s. If I look at the customer segmentation of Flaschenpost, we can see the same thing. In fact, everyone is using our services as soon as they no longer live at home as during that time the mother is usually taking care of beverages. But it starts with the age of 16-18, when people are moving out from home and from then onwards, no matter which age, even above 60 and 70, the customer share is still relatively high.”

Thomas Nase – Key Account Director REWE, Nestlé S.A., Germany

Q10: What is special about the German consumer and the German trade?

“Germany is the number one discount market. We have very price-affine shopper that strongly compare prices in advance with the help of online portals, flyers and so on. Therefore, they know average prices and shop accordingly. Moreover, Germans have an incisive quality consciousness – when shopping for fresh products such as fruits and vegetables, the customer wants to hold the items in his hands and feel if there are any dents or if the products have the expected quality. In addition, the trade is focused on convenience. We have easy products and value easy shopping. In the world of discounters, you have a manageable range which allow fast shopping. The German trade is also moving to more private label products. The number of trademarks is growing and by now also able to compete with industrial brands.”

Eve-Marie Tissot – Key Account Manager REWE and former Key Account Manager E-Commerce, Nestlé S.A., Germany

Q10: What is special about the German consumer and the German trade?

“German consumers are rational and very professional. They are smart spenders, seeking for the best price and best deal. Around 98% of the German population has at least once bought at Lidl. In contrast, the French consumer has a greater willingness to spend money for food...and they are less demanding. In France, the relevancy of discounters is not as high as in Germany. I think in France we are talking about around 10%, whereas here it is around 40%.”

Marie-Sophie Dumont – Junior Online Account Manager, Eucerin, Pharmacy, Beiersdorf AG, Germany

Q2: What are current challenges in your job?

“Our team exists only for two years and e-commerce is a very fast growing market. We have to take care to keep pace with our manpower to not lack behind in the future. We need to make sure that we are staying dynamic as the growth is so strong and also competitors such as L’Oréal with La Roche Posay and Vichy are extremely powerful. In recent times, online was neglected a bit as the offline trade is still our core business. Beiersdorf has started relatively late to deal with online and needs to build up every process connected to online on its own now. On trade side, the challenge is that our online segment is mainly price-driven, and the consumer shops online as products are up to 50% cheaper in comparison to offline pharmacies. This holds also true for cosmetics.”

Johannes Frederik Schuster – Manager Marketing Strategy, Interface Omnichannel & Analytics, REWE GmbH, Germany

Q10: What is special about the German consumer and the German trade?

The German consumer is not yet that technology-savvy. Our trust in online services itself is not high and goes from the integration of the use of the iPhone into our everyday life to how many transactions are made with the phone. There are still many people that want to withdraw their money from the bank and pay in cash, which is completely incomprehensible. Moreover, consumers would like to touch the products before buying. If I want to do something good for my family, I go to the weekly market or the supermarket and select products on my own. Germans like to select things and do also want to make sure that products have the right quality. The shopping of groceries differentiates in terms of the purchase decision from luxury products in which the consumer decision on what to buy is pretty trivial. German consumers are marked by the post-war years and the invention of the discounter. We are raised to save money and the discounter is a German concept which attracts customers that are very price-sensitive. We love to save money and make the best deals, which is underlined by the fact that no other country collects as many bonus points and Payback points as the Germans. Another point is that our purchasing behaviour is contradicting to the extremely time-consuming and costly value chain of delivery services. As a last aspect you have to keep in mind the extreme conservative consumer which considers the supermarket as a social meeting point and adheres to it.”

Ruben Dahmen – Founder, Chief Executive Officer and Digital Consultant, WAYS GmbH, Germany

Q10: What is special about the German consumer and the German trade?

“The German consumer is relatively easy to convince. If you manage to implement a point of successful establishment, you will be able to convince a German. We are already pooled by nature that we need a checklist in which we could tick the pros and cons and at a certain point we say yes. If we would look back five years in history, nobody could have imagined buying Amazon Prime or Netflix, but nowadays many people are using it. As soon as we understand the advantages of a service, we are able to clear old thought patterns and also buy online. Moreover, German consumers are more sensitive in regard to sharing their data. Taking a look at the politics and our society in general, we are shooting ourselves in the foot with our data security, as they are more severe than in other countries. Therefore, we can say that politics slows down online retail. The German himself is a rational person that does not have any problems with data sharing, if he knows that the data will be treated sensitive. Moreover, German consumers would like to feel the products in their own hand and see how the meat is cut by the butcher at the counter.”

Lisa Kostenko – Digital Brand Manager, Picnic, Germany

Q2: What are current challenges in your job?

“In the Netherlands we already have over 200 employees but in Germany we are only around 10-15 people so far. It is a pure start-up atmosphere in which everyone is responsible for everything. Our biggest challenges it to create acceptance for online grocery retail in Germany as it is still very low. We basically have to answer three main questions: First, what does consumer want. Second, how do we implement the logistics. Third, how do we convince consumers as everything is new for them and they shy away from new things. It is a vicious circle and the challenge for us is to achieve what stationary trade is already offering. Discounters are able to offer the lowest price, while large stores, such as REWE or Edeka can convey convenience. Therefore, pure online players have the challenge to combine both into the same service offering.”

Alexander Pagel – Consultant, Simon Kucher & Partner, Germany

Q5: Where do you see current risks in online grocery retail for the industry and for trade?

“We are still missing the acceptance of consumers to shop for groceries online. Furthermore, quality assurance needs to be implemented as Germans do not trust current quality standards, especially during the time of delivery. Another risk are the difficulties of meeting delivery periods and reducing them in the future. Furthermore, the first impression counts! Many consumers are interested, but if the first try is not perfect, consumer trust is directly lost again. Last but not least, every player that wants to sell groceries faces high investment costs for logistics and processes, which will only bring a return in a long-term perspective.”

Interviewee 19 – Private Person

Q3: Where do you see current risks in online grocery retail for the industry and for trade?

“Above all, firms are taking the risk as up-to-date and in a timely manner most likely no positive return will be made, so why should they get involved in the first place? Furthermore, you have the big four with over 70% market share, namely Aldi, Lidl for the discounter segment that have a price-aggressive business model which makes it even harder to convert into the online world. In contrast, you have REWE and Edeka as cooperatives, which also have their difficulties in raising billions to roll out the online business properly.”

Q4: Where do you see current opportunities in online grocery retail for the industry and for trade?

“I absolutely see opportunities as the starting position is clear. The German food retail market accounts for close to €190 billion in pure food volume. This is a highly attractive market, even if I only achieve an online market share of 1-5% and if I would then operate in a city such as Berlin, Munich or Hamburg and would maybe have 10-20% sales share in these cities, it would result in a huge volume. If I would be able to penetrate the market and nobody else would have been able to do that before, it can be seen as a highly attractive business. Today you might have many traditional companies, which developed historically and do only care about the revenues in the end. However, in four years, you might have new players, that do not care about numbers, but about other key performance indicators that convince venture capitals to invest in their firm.”

Theresa Küter – Product Manager Digital Touchpoints and Customer Experience, Deutsche Post DHL Group, Germany

Q6: How does the industry and trade need to change in order to stay interesting for online grocery retail in Germany?

“The delivery time is crucial for the customer. Firms must achieve that packages are delivered the same day and even in 15 minutes slots. This necessitates a sophisticated logistic, but also represents the prime benefit for customers that have long working days and want to have their groceries delivered the moment they arrive at home in the evening. Moreover, automation is crucial. I do not know how supermarket chains are currently operating, but so far only REWE seems to have appropriate processes. Edeka, for example, still needs to adopt their current processes and configure them in a way that enables deliveries.”

Constantin Sandfort – National Key Account Manager REWE also responsible for REWE digital, Nestlé S.A., Germany

Q11: Do you believe in the establishment of an online channel in food retail?

“Yes, I do! Especially in conurbation such as Berlin or Munich, one would attract the right consumer segment, which have a high affinity for the internet. However, Click & Collect will be clearly more exciting and used more frequently, as consumers are passing by stores on their way home anyways and can save time by picking up their groceries. Moreover, they have the chance to take a last look at the items and give them back if quality standards are not fulfilled. Also, a firm delivery might be possible, whereby firms are actively supplied once or twice a week.”

Markus Hau – Supply Chain Director International Customers, Nestlé S.A., Germany

Q11: Which are current difficulties of cooperation between industry and trade?

“Everyone has an interest in improving something, but each one out of its own drive. At the end, everything will go into the same direction as the retailers that want to sell online have a generic interest in it, but also consumers and the industrial side will play a role in that transformation. A big difficulty is the cooperation in terms of data sharing and data processing. For sure it would be a win-win situation for both sides, if one would share the data with each other, but so far, the willingness to do so is rather low. Especially in Germany, where the market is characterised by medium-sized businesses, the added value of data sharing is still limited. In comparison, the United Kingdom is much further ahead, and industry and trade are working together in analysing data. Another point is the establishment of standardisation. Automation of processes must be faster and cheaper. If new players are entering the market, one has to work closely together with them and try to cooperate in a seamless way. In fact, every distribution channel has its own requirements on packaging. Discounters need shelf-ready packaging and fancy appearance, whereas online packaging do not require colours and so on, but must be easy to open, be stable and simple to return.”